Procurement Work Group
Meeting Notes - July 19, 2004

The meeting began at 1:00 p.m. in Chicago at the Constellation New Energy Offices with numerous individuals participating by teleconference. The Meeting Notes of July 12, 2004 were adopted with the following modification: Scenario Three Facts numbers 7, 8 and 9 should have been shown as Facts for Scenario 3 A.

A request was made for a volunteer to present Scenario Three. There were no responses and therefore Scenario Three discussions will be postponed until such time as there is a volunteer.

Discussions were then focused on the "Cons" of Scenario 3 A. Following are the consensus, cons and factuals for Scenario Three A:

SCENARIO 3 a: **SMART PORTFOLIO MANAGEMENT**

PROS

1. Allows more flexibility in mix of products. **(consensus agreed)**

2. Provides for laddering of product types and terms which can dilute exposure to volatility or market power. **(consensus agreed)**

3. Provides for a flexible plan, which may include long term and short term (including spot purchases) developed in a transparent public process making use of regulatory, utility, and other stakeholder expertise and including an assessment of wholesale supply contracts, market power, to manage risk on behalf of customers and suppliers accommodate changing supply, demand and market conditions over time. **(consensus agreed)**

4. May include auctions where appropriate as well as RFPs for competitive procurement. **(consensus agreed)**

5. Allows for non-price considerations to be included in portfolio planning, such as fuel and technology diversity, demand response programs, energy efficiency, and encouragement of new generator entry and investment and, as such, can enhance by security. **(consensus agreed)**

6. Assuming a competitive generation marketplace, results in market-based rates for customers. **(consensus agreed)**

7. Would appear to be capable of producing stable rates for applicable customers and suppliers within relevant time periods (monthly, quarterly, annually or multi-year periods)

8. Allows for incorporation of RPS green power requirements. **(consensus agreed)**

9. Enhances wholesale competition and market liquidity by opening up the procurement process to third-party suppliers through the utilization of competitive bidding. **(consensus agreed)**

10 Facilitates generating companies with smaller or specialized asset portfolios being able to participate directly as suppliers to the utilities because the generating companies do not need diversified capacity mixes more critical to serving vertical tranches in order to participate. **(consensus agreed)**

11. To the extent this scenario provides for a priori approval of the portfolio by the regulator uncertainty associated with after-the-fact prudence reviews is reduced. **(consensus agreed)**

CONS:

1. Significant regulatory complexity involved in the review of the utilities' management of its portfolio of products; may require new/enhanced regulatory staff skills in risk management. **(consensus agreed)**

2. Potential for stranded costs if some products are contracted forward. **(consensus agreed)**

3. Could result in unreasonable prices if there is a lack of competition in the wholesale market. **(consensus agreed)**

4. A failed auction without an alternative resolution may leave customer classes exposed to spot prices for some of their load for a period of time. **(consensus agreed)**

5. May create additional administrative costs and requirements on the ICC and all other "stakeholders" compared to other Scenarios. **(consensus agreed)**

6. Any delays in regulatory approvals required for a utility to adapt its supply portfolio to changing market conditions may result in inefficient portfolio management. **(consensus agreed)**

7. Non-standard supply bids (dispatch flexibility, unit contingent, terms, etc.) require complex evaluation criteria for each product type. **(consensus agreed)**

8. To the extent that this Scenario includes mandated motor fuel/technology diversity standards, some suppliers would be excluded from competing for portions of load requirements. **(consensus agreed)**

9. May involve significant counterparty credit risk, especially if procurement is through long-term supply contracts where fuel cost is not fixed. **(consensus agreed)**

10. Can lead to possible stranded cost issues on long-term contracts as a result of customer switching. **(consensus agreed)**

11. Bidders must add additional price risk premium to contracts for tranches longer than 3-years. Current forward markets only exist out to 3-years, so any price a bidder must submit for products with durations of longer than 3 years may involve greater uncertainty. **(consensus agreed)**

FACTS

1. Important issues regarding goals, responsibilities, and risk allocation would need to be addressed prior to implementation. **(consensus agreed)**

2. Prices could become "out-of-market" over time as a result of long term contracts. **(consensus agreed)**

3. Suppliers of vertical tranches take on all generation-related responsibilities, including portfolio/risk management. **(consensus agreed)**

4. Risks and responsibilities would be shared between suppliers and the utility. **(consensus agreed)**

5. This Scenario does not mandate fuel/technology diversity standards (E.G. clean coal development, RPS, etc.). **(consensus agreed)**

Three additional meetings were scheduled for the Procurement Working Group. Each meeting will be held in Chicago at the Constellation New Energy Offices. The meeting dates are:

August 5, 1-4 p.m.
August 13, 9 a.m. - noon
August 16, 1 - 4 p.m.

A matrix was presented to help speed the process along. Participants were requested to have their comments to Dave Vite in the next several days in order that a thorough discussion can be held at our next meeting. The next meeting of the group is scheduled for Chicago at the Constellation New Energy Offices on Monday, August 26 from 1 - 4 p.m. The meeting was adjourned at 4:10 p.m.